

**JERICO ROAD EPISCOPAL
HOUSING INITIATIVE, L.L.C.**

AUDITED FINANCIAL STATEMENTS

December 31, 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

9/1/10

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

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Kushner LaGraize, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

S. DAVID KUSHNER, CPA, CIFA*
WILSON A. LaGRAIZE, JR., CPA, CIFA
ERNEST G. GELPI, CPA, CGFM
CRAIG M. FABACHER, CPA
DOUGLAS W. FINEGAN, CPA, CVA
MARY ANNE GARCIA, CPA
*A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

WILLIAM B. HAMILTON, CPA
KATHARINE M. LASSITER, CPA
RICHARD J. RUMNEY, CPA

Members
American Institute of CPAs
Society of Louisiana CPAs

Mr. Brad Powers and The Board of Directors
Jericho Road Episcopal Housing Initiative, L.L.C.
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Jericho Road Episcopal Housing Initiative, L.L.C. (a non-profit organization) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Jericho Road Episcopal Housing Initiative, L.L.C. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2010, on our consideration of Jericho Road Episcopal Housing Initiative, L.L.C.'s internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
June 23, 2010

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 768,357
Grants receivable	100,000
Employee advances	389
Donations receivable	125
Inventory	<u>1,207,450</u>

TOTAL CURRENT ASSETS 2,076,321

PROPERTY AND EQUIPMENT

Office equipment	10,428
Office furniture and fixtures	8,976
Less accumulated depreciation	<u>(6,399)</u>
	13,005

OTHER ASSETS

Soft second mortgage loans receivable, net of accumulated amortization of \$22,465	297,395
Investment in community project	<u>54,036</u>
	<u>351,431</u>

\$ 2,440,757

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 887
Accrued expenses	<u>2,400</u>

TOTAL CURRENT LIABILITIES 3,287

NET ASSETS

Unrestricted	2,409,050
Temporarily restricted	<u>28,420</u>
	<u>2,437,470</u>
	\$ 2,440,757

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.**STATEMENT OF ACTIVITIES***For the Year Ended December 31, 2009*

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Grant income	\$ 350,000	\$ 89,070	\$ 439,070
Cash contributions	141,962	69,471	211,433
Contribution of land	10,000	-	10,000
Interest income	6,323	-	6,323
Property development income	33,750	-	33,750
Net loss on sales of homes	(230,957)	-	(230,957)
Net assets released from restrictions - satisfaction of restrictions	634,682	(634,682)	-
TOTAL REVENUE AND SUPPORT	945,760	(476,141)	469,619
EXPENSES			
Amortization	13,963	-	13,963
Bank fees	608	-	608
Business registration fees	247	-	247
Community promotions	7,048	-	7,048
Computer software	3,801	-	3,801
Continuing education	8,061	-	8,061
Depreciation	3,515	-	3,515
Fundraising	13,127	-	13,127
Insurance	10,940	-	10,940
Marketing	39,923	-	39,923
Office supplies	11,976	-	11,976
Payroll taxes	23,885	-	23,885
Postage	854	-	854
Printing and copying	31	-	31
Professional fees	29,332	-	29,332
Public relations	24,525	-	24,525
Rent	18,000	-	18,000
Salaries and benefits	386,113	-	386,113
Telephone	6,002	-	6,002
Travel and meetings	8,073	-	8,073
TOTAL EXPENSES	610,024	-	610,024
CHANGE IN NET ASSETS	335,736	(476,141)	(140,405)
NET ASSETS – Beginning of year	2,073,314	504,561	2,577,875
NET ASSETS – End of year	\$ 2,409,050	\$ 28,420	\$ 2,437,470

See Notes to Financial Statements.

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

STATEMENT OF CASH FLOWS *For the Year Ended December 31, 2009*

OPERATING ACTIVITIES

Change in net assets	\$ (140,405)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	3,515
Amortization	13,963
Loss on sales of homes	230,957
(Increase) decrease in operating assets	
Employee advances	(389)
Grants receivable	132,855
Donations receivable	(125)
Increase (decrease) in operating liabilities	
Accounts payable	(3,693)
Accrued expenses	1,564

NET CASH PROVIDED BY OPERATING ACTIVITIES 238,242

INVESTING ACTIVITIES

Purchase of property and equipment	(7,676)
Proceeds from sale of homes	608,645
Cost of homes/lots purchased for construction	(1,150,360)
Increase in investment in community project	(33,768)
Increase in soft second mortgage loans receivable	(130,000)

NET CASH USED IN INVESTING ACTIVITIES (713,159)

NET DECREASE IN CASH AND CASH EQUIVALENTS (474,917)

CASH AND CASH EQUIVALENTS AS OF BEGINNING OF YEAR 1,243,274

CASH AND CASH EQUIVALENTS AS OF END OF YEAR \$ 768,357

Supplemental Disclosure of Noncash Activities:

Donated land	\$ 10,000
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JERICHO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jericho Road Episcopal Housing Initiative, L.L.C. (the Organization) is a neighborhood-based non-profit organization that was formed as a tax exempt organization in March 2006. It is located in New Orleans, Louisiana and the initial and sole member of the Organization is the Diocese of the Episcopal Church of Louisiana. The primary purpose of the Organization is to provide healthy and energy efficient affordable housing opportunities in New Orleans neighborhoods for working families and individuals.

The Organization works with other non-profit organizations, businesses, governmental agencies and neighborhood residents to create and maintain a stable and thriving community. Long-term housing strategies include new construction and rehabilitation of existing owner-occupied homes. The Organization is supported primarily through contributions and grants.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets.

Contributions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

Cost Recognition/Homes-In-Process

All direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs are recorded as inventory on the statement of financial position as they are incurred. Land costs included in inventory are stated at cost or fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities.

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

It is the Organization's policy to capitalize property improvements and equipment purchases of \$1,500 or more. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets (generally 5 years).

Soft Second Mortgage Loans Receivable

Soft second mortgage loans receivable consist of non-interest bearing forgivable loans secured by real estate. No repayment is required unless the borrower fails to maintain ownership of the property and reside in it as his/her principal place of residency for the duration of the applicable period of affordability, which is fifteen years. In the event the borrower ceases to occupy the property, the entire amount of the loan, less any portion earned by the borrower, will be due and payable.

The borrower will earn a portion of the loan for each month that he/she owns and resides in the property as his/her principal place of residency. The borrower will earn the loan on a pro-rata basis for each month of ownership and occupancy as measured against the period of affordability.

The Organization records the earned portion on a straight-line basis as amortization in the statement of activities. Management has elected not to record an allowance for loan losses as management believes all loans are fully collectible.

Warranties

The Organization provides a new home warranty in the deed of trust on the sale of new homes as required by the State of Louisiana's New Warranty Act. The warranty is for one year and is generally for defects in materials and workmanship. The Organization did not record a warranty liability because the subcontractor furnishes a warranty. The Organization would only be liable if the subcontractor fails to honor their warranty.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Land and Services

Donated land is reflected at its estimated fair value at the date of receipt. Support arising from donated services is recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for donated services as the amount of these items do not meet all of the recordation requirements of ASC 958 as described above.

Fair Value of Financial Instruments

Fair value estimates, methods and assumptions for the Organization's financial instruments of cash and cash equivalents, grants and other receivables, accounts payable and accrued expenses are that the carrying amounts reported in the statement of assets, liabilities, and net assets are a reasonable estimate of fair value for the year ended December 31, 2009.

Income Taxes

The Organization qualifies as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and thus, is exempt from federal and state income taxes.

During 2009, the Organization adopted ASC 740-10 as it relates to uncertain tax positions. ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, it provides guidance on derecognition, classification, and interest and penalties. No adjustments were required upon adoption.

Subsequent Events

The Organization has evaluated subsequent events through the date the financial statements were available to be issued, which corresponds with the date of the independent auditors' report. No material subsequent events have occurred since December 31, 2009 that required recognition or disclosure in these financial statements.

NOTE 2 - OFF-BALANCE SHEET RISK

At December 31, 2009, the Organization had a bank balance of \$771,649 of which \$250,000 was covered by federal depository insurance and \$521,649 was uninsured and uncollateralized.

NOTE 3 - PENSION PLAN

The Organization, an eligible sponsoring employer, participates in the Episcopal Church Lay Employees' Defined Benefit Plan. The Plan is administered by the Church Pension Fund. The Organization contributes 9% of each staff member's base pay. Pension expenses for the staff amounted to \$14,490 for the year ended December 31, 2009.

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE 4 – RELATED PARTY TRANSACTIONS

During 2009, officers and board members of the Organization made contributions totaling \$5,200.

In 2009, the Organization rented office space from the Episcopal Diocese of Louisiana. See Note 11.

NOTE 5 – INVENTORY

Inventory for the year ended December 31, 2009 consists of the following components:

Lots available for development	43	\$	765,130
Construction-in-progress	3		305,555
Completed homes	1		136,765
		\$	<u>1,207,450</u>

Inventories are stated at cost plus the estimated fair value of donated land at the time of donation.

On April 15, 2010 Jericho Road Episcopal Housing Initiative, L.L.C. sold six lots so they could be developed using funds from the Neighborhood Stabilization Program. The Organization entered into an agreement with New Orleans Redevelopment Authority as a consortium member in April 2010.

NOTE 6 – HOME SALES

During the year ended December 31, 2009, there were 4 homes and 7 lots sold to qualifying applicants.

Home/lot sales – proceeds	\$	608,645
Cost of homes/lots sold		<u>(839,602)</u>
Net loss on sales of homes/lots	\$	<u>(230,957)</u>

NOTE 7 – GRANTS RECEIVABLE

Grants receivable include:

Episcopal Relief and Development	\$	<u>100,000</u>
TOTAL	\$	<u>100,000</u>

These amounts are presented at fair value and management believes that all grants are fully collectible; therefore, management has elected not to record an allowance for doubtful accounts.

NOTE 8 – INVESTMENT IN COMMUNITY PROJECT

Investment in Community Project is stated at cost. This investment represents costs incurred on a project to develop a community park. The property is owned by the City of New Orleans and the Organization's plan is to enter into an agreement with the City, solicit grants and or funds and direct the development of this property into a community park for the benefit of homeowners in the area.

JERICO ROAD EPISCOPAL HOUSING INITIATIVE, L.L.C.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2009 are available for the following specified purpose:

Director of housing programs	<u>\$ 28,420</u>
TOTAL	<u>\$ 28,420</u>

NOTE 10 - FUNCTIONAL EXPENSES

Expenses incurred for the year ended December 31, 2009 were for the following purposes:

General and administrative	\$ 237,893
Fundraising	79,374
Program services	118,529
Public relations and marketing	109,005
Community promotions	65,223
	<u>\$ 610,024</u>

Functional expenses are summarized by function based on estimates and allocations developed by management.

NOTE 11 - LEASE

The Organization leases office space under a month-to-month lease agreement from the Episcopal Diocese of Louisiana (the sole member of Jericho Road Episcopal Housing Initiative, L.L.C.). Rent expense for the year ended December 31, 2009 totaled \$18,000.

NOTE 12- MAJOR VENDOR

During the year ended December 31, 2009, the Organization paid a substantial portion of its construction expenses to one major vendor which accounted for 38 percent of construction expenses. Payments to this vendor totaled \$505,044 during the year ended December 31, 2009.

NOTE 13 - MAJOR GRANTOR

During the year ended December 31, 2009, the Organization received a substantial portion of its grant income from one major grantor which accounted for 57 percent of grant income. Grant income from this grantor totaled \$250,000 for the year ended December 31, 2009.

Kushner LaGraize, LLC.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Brad Powers and The Board of Directors
Jericho Road Episcopal Housing Initiative, L.L.C.

We have audited the financial statements of Jericho Road Episcopal Housing Initiative, L.L.C. as of and for the year ended December 31, 2009, and have issued our report thereon dated June 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Jericho Road Episcopal Housing Initiative, L.L.C.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jericho Road Episcopal Housing Initiative, L.L.C.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Jericho Road Episcopal Housing Initiative, LLC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Jericho Road Episcopal Housing Initiative, LLC in a separate letter dated June 23, 2010.

This report is intended solely for the information and use of management, the Board of Directors, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Kushner LaGraize, LLC

Metairie, Louisiana
June 23, 2010

Kushner LaGraize, LLC.

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June 23, 2010

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Members
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Society of Louisiana CPAs

Mr. Brad Powers
Jericho Road Episcopal Housing Initiative, L.L.C.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of Jericho Road Episcopal Housing Initiative, L.L.C. for the year ended December 31, 2009, in accordance with auditing standards accepted in the United States of America, we considered the internal controls of the Organization to plan our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during the audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration.

CASH

1. Observation

While conducting the audit of cash at December 31, 2009, we noted that the Organization had cash on deposit in excess of the federally insured limit in a financial institution. The Organization had \$771,649 of which \$521,649 was in excess of the federally insured limit in a financial institution. This presents a potential for losses in the event of bank or institutional failure.

Recommendation

While it is difficult to maintain less than \$250,000 in the operating account and money market account, we recommend that the Organization monitor cash balances and transfer excess balances to other banks, where possible, to reduce the potential for loss of monetary amounts in excess of the federally insured level.

2. Observation

During our review of cash procedures, we noted that no log is prepared when checks are received by the Organization. We also noted that checks are not being immediately restrictively endorsed. This presents a potential for misappropriation of cash.

Mr. Brad Powers
Jericho Road Episcopal Housing Initiative, L.L.C.
June 23, 2010
Page 2

Recommendation

We recommend that the Organization implement the following procedures in order to improve internal controls over cash receipts:

- Checks should be immediately endorsed when they are received.
- A control list should be prepared of receipts / checks when received or mail opened.
- Checks should be deposited into the bank on a timely basis.
- Receipts should be processed timely.
- Deposit slips should be matched against the list of receipts to ensure that all amounts on the receipts were deposited.

INVENTORY

3. Observation

In conjunction with auditing the inventory and the schedule of sales of homes, it was noted that the Organization has recorded costs incurred after the sale of homes, i.e. warranty costs, costs for repair after sale as part of the gain or loss on sale of property. These costs should be recorded in a separate general ledger account and should not be part of the gain or loss on sale of property.

Recommendation

We recommend that the Organization establish procedures to record costs incurred after the sale of homes.

INSURANCE

4. Observation

During our audit, we noted that the organization carries no bonding insurance for those employees involved with the handling of checks &/or cash. Bonding coverage protects an organization from loss due to theft or embezzlement. We strongly recommend that the organization contact its insurance agent and consider obtaining bonding insurance. Bonding insurance is considered to be a critical element of a strong system of internal controls. The following types of coverage are available:

- *Scheduled bond* Used where the employer needs to cover only named employees.

Mr. Brad Powers
Jericho Road Episcopal Housing Initiative, L.L.C.
June 23, 2010
Page 3

- *Blanket bond* Covers all employees, including automatic coverage for new employees.
- *Position bond* Covers specific positions rather than certain named employees.

Recommendation

We recommend that the organization consider obtaining one of these policies.

CONCLUSION

Our objective in performing the audit was not to conclude on your internal control system. Because of the inherent limitations in any internal controls, errors or fraud may nevertheless occur and not be detected. Also, projection of any assessment of the internal controls to future periods is subject to the risk that policies or procedures may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

This report is intended solely for your use and should not be used for any other purpose.

We will be pleased to discuss the above comments with you and, if you desire, to assist you in implementing any of the recommendations.

Sincerely,

Kushner LaGraize, L.L.C.

KL/sgf